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GOVERNMENT OF INDIA

BUDGET, 1961-62

FINANCE MINISTER'S SPEECH

New Delhi, the 28th February, 1961

Sir,

I rise to present the statement of the estimated receipts and expenditure of the Government of India for the year 1961-62.

2. With the close of the current year, we shall be completing a decade of planned development and we shall be launching on the Third Five Year Plan. Honourable Members will, I am sure, agree that the last 10 years have been a period of striking development in almost all sectors of the economy. Large investments have been made in agriculture, irrigation and power, major as well as medium and small industries, transport and social services. We are perhaps too near these events to be able to assess their full impact or significance. I venture to think that despite various difficulties, we have succeeded in creating a new dynamism in the economy. The public sector has gone forward and has taken on tasks which were entirely new. The private sector also has advanced considerably. All over the country—in the cities and in the towns as also in rural areas—one sees the beginnings of new developments in various directions.

3. The First Five Year Plan was a relatively modest effort, both in its scope and its dimensions. Though the Plan was fulfilled satisfactorily, it became clearer, even as we were proceeding with it, that unless we accelerated the tempo of development, it would not be possible to lift our people out of poverty.

4. The Second Five Year Plan was, in consequence, a bolder and more ambitious one. It aimed at larger increases in production, investment and employment. It was conceived in terms of a long-term strategy of development. Out objective is to develop in the country, at as early a date as possible machine-building capacity on a scale which would enable our development to proceed without dependence on the import of capital goods. To achieve this, progress has to be made over a wide field—in the production of metals, particularly iron and steel, in the establishment of plants intended to produce heavy machinery, as well as in the development of the necessary techniques and skills. Even while we are proceeding with the development of machine-building capacity, we have to strengthen the agricultural base and to provide for the other basic needs of our growing population.

5. Honourable Members are aware that in the course of the implementation of the Second Five Year Plan, we were confronted with major difficulties in regard to resources, particularly external resources. It became necessary for us to make certain adjustments in the Plan and to confine our attention primarily to the fulfilment of what came to be described as the 'core' of the Second Five Year Plan. The target of outlay in the public sector was cut down from Rs. 4,800 crores to Rs. 4,500 crores. As the Second Five Year Plan draws to a close, we expect to exceed the revised target and to attain an outlay of Rs. 4,600 crores.

6. As a result of this effort at developmental planning over the last 10 years, industrial production has increased by about 66 per cent and agricultural production has gone up by about 33 per cent. We have added substantially to the installed capacity for steel and for a number of engineering industries including machine-making. The chemical industries have also grown rapidly. At the same time, we have greatly strengthened the basic services and amenities such as fuel, power, transport and irrigation which provide the foundation for rapid economic growth.

7. During the Second Plan, the total additional taxation has been of the order of Rs. 1040 crores of which nearly Rs. 800 crores were at the Centre. The resources arranged by mobilisation of private savings, mainly through loans, small savings and provident funds have yielded about Rs. 1,400 crores and the extent of deficit financing during the Plan period is expected to be about Rs. 1100 crores as compared to Rs. 1200 crores originally envisaged. This is satisfactory as far as it goes. We are now embarking on a bigger Plan and we shall have to make a greater effort to direct our resources through channels which lead to greater development and progress.

8. The Third Plan in its final shape is expected to emerge shortly. The House will have ample opportunity to discuss it in due course. I shall, therefore, dwell only on some of its salient features and what it means in terms of the problem of providing adequate resources for it. At the last meeting of the National Development Council, we were confronted with a very difficult choice. On the one hand, our best estimates of resources that we could hope to mobilise lead us to the conclusion that outlays in the Plan should be limited to Rs. 7500 crores. On the other hand, the programmes for which there was necessity and readiness to proceed added up to a higher figure. The Council has decided that

for the purposes of physical planning, programmes with a ceiling of Rs. 8,000 crores should be prepared but the financial limit of Rs. 7,500 crores must be adhered to. The fact that we shall have larger programmes worked out will enable us to start on their execution as soon as resources are in sight. At the same time, we cannot and must not take on commitments beyond our resources. Throughout the Third Plan we shall have to be careful to see that reliance on what is popularly described as deficit financing is strictly limited. The size of the Plan, in other words, will depend upon our tax effort and our ability to mobilise savings. No one would be happier than I if we are in fact in a position to raise resources to a higher figure than the target of Rs. 7500 crores.

9. Our estimate of resources for the Third Plan postulates that the surpluses of various public enterprises should be available for financing the Plan. Besides Railways for which there are separate arrangements, Government have in the last decade invested large sums in various industrial undertakings in the public sector. It is of basic importance that these enterprises should function on sound commercial principles and should make adequate profits which can be ploughed back into further investment.

10. Apart from the limitations regarding internal finance, we have to bear in mind the crucial significance of external finance or foreign exchange in our planning. The requirements of external assistance for the next five years as envisaged in the Draft Outline are of a very substantial order and we do not propose to exceed this limit. It is essential, in this context, that we should reduce expenditure of foreign exchange in every conceivable direction and step up the level of exports. In the detailed phasing of the Plan, we shall have to ensure that the foreign exchange gap in terms of actual outgoings during the Third Plan, which we expect to fill by external aid, does not exceed the estimates set out in the Draft Outline.

11. Developmental activities of this magnitude, with all the limitations which we face, are not an easy task. They call for sacrifices. They necessitate a willingness to go without many things. They involve a restraint on consumption in order that more resources are available for investment. The degree of hardship which this development entails can be alleviated to some extent by external aid. Such aid has been available to us from friendly countries in the Second Plan period and has enabled us to make substantial progress with our 'core' projects, in spite of the acute position in regard to foreign exchange with which we were faced in the middle of the Plan. I am grateful to all those who have helped us. But ultimately it is through our own efforts and our own sacrifices that we can build our future.

Review of Economic Conditions

12. Following the usual practice, I now propose to review briefly the economic conditions in the country during the current year. The detailed assessment of the emerging economic trends has been made in the Economic Survey which has been circulated along with the Budget papers. The Survey also draws attention in broad terms to the cosiderations and objectives which should guide our fiscal and monetary policies during the coming year. I shall not, therefore, go into the details of the economic situation but shall confine my remarks to the salient features of 1960-61.

13. During the year, the economy advanced in several respects. Investment, both public and private, was at a high level and the upward trend in industrial production was accelerated. The agricultural season of 1959-60 was, however, not so favourable. This reduced the domestic availability of foodgrains and raw materials. To an extent, the shortage was met through additional imports. Nevertheless, there was a significant rise in the prices of agricultural raw materials as well as in the overall level of whole-sale prices. The outlook in respect of agricultural and industrial production in the coming year is, however, distinctly better. There is every hope that the upward trend in industrial production will be maintained.

Production

14. Agricultural production in 1959-60 did not come up to our original expectations owing mainly to adverse climatic conditions. Food production at about 72 million tons was about 5 per cent less than in the previous year. There was also a substantial decline in the output of cotton, raw jute and oilseeds. Sugarcane, however, recorded a welcome increase of 6·6 per cent.

15. For the current agricultural year, the prospects are better. The Kharif crop is expected to be as good as, if not better than the excellent crop of 1958-59, and Rabi sowings have also been satisfactory. The output of cotton this year will also be substantially larger than last year. A further increase in sugarcane production is expected. For jute and oilseeds, however, the outlook is not equally promising.

16. Industrial production in the first ten months of 1960 showed an increase of 11·5 per cent over the corresponding period of 1959. The rate of increase is the highest we have achieved so far. The increase has occurred in almost all industries and it is gratifying that it has been relatively larger in the case of intermediate products and capital goods. Marked increases occurred in iron ore, iron and steel, industrial machinery, paper and paper board, chemicals, cement, general and electrical engineering goods and transport equipment. The output of mill cloth—about 5000 million yards—was also slightly higher than in 1959, in spite of the shortage of supplies of Indian cotton.

17. There has been a substantial addition to production capacity in a number of important industries. Industrial activity in the country is getting diversified, and I am particularly happy to find that a large number of small and medium enterprises is coming up to establish new lines of production and to expand the existing ones. As the House is aware, legislation was undertaken to facilitate the introduction of a scheme of credit guarantee in respect of loans from commercial banks to small scale units under the aegis of the Reserve Bank of India. The scheme is making good progress and about 300 applications have been sanctioned during the last 7 months.

18. The expansion programme of the two steel works in the private sector has been practically completed. The three public sector steel plants have made steady progress and the next few months will see the commissioning of all the blast furnaces, steel melting shops and rolling mills in these plants. The production of finished steel in 1960 was about

2·2 million tons and it is expected to reach 3·5 million tons in 1961. The steel expansion programme, together with the development of mining and transport constitutes the sinews of our industrial development and has been given a very high priority in our Third Plan.

19. The production of coal in 1960 was about 51 million tons as compared to 47 million tons in 1959. Most of the new mines in the public sector are now in production. The Oil and Natural Gas Commission has continued its search for oil in Jwalamukhi and Hoshiarpur areas in the Punjab, in Cambay and Ankleshwar areas in Gujarat and in the Rudrasagar areas in Assam. On the basis of the results of exploration in Gujarat, it has been decided to set up a large refinery, which will be financed from the recent Soviet credit.

20. A notable new field of development, the foundations of which were laid in the Second Plan and which will receive special emphasis in the Third Plan, is machine-building. The first phase of the Heavy Electrical Project at Bhopal has already been completed and orders are now being placed for its second phase by utilising British credit. Other projects in the field of heavy machinery, which will be completed during the Third Five Year Plan, include the Heavy Machinery Plant at Ranchi, the Mining Machinery Plant at Durgapur, both of which are being financed out of Soviet credits, as well as the Foundry Forge which is being set up with Czechoslovak collaboration. The Hindustan Machine Tools Factory at Bangalore has already attained a higher level of production than was originally envisaged and is now engaged in a programme of expansion. Development in machine-building capacity in the private sector is also proceeding at a satisfactory pace and considerable progress has been made with the manufacture of the plant and machinery required by the sugar, paper and cement industries.

Monetary Trends

21. During the year, money supply with the public increased by Rs. 219 crores as compared to an increase of Rs. 171 crores in 1959. A major factor in this expansion was bank credit. Government's indebtedness to the banking system increased much less than in the previous year. The expansionary effect of these developments was countered to a small extent by a decline in the foreign assets of the Reserve Bank.

22. The deposits of scheduled banks rose in 1960 by Rs. 65 crores as compared to Rs. 254 crores in the previous year. This large reduction is due in the main to the revised procedure regarding the placement of rupee counterpart funds arising out of P. L. 480 imports. These amounts were, until last year, deposited with the State Bank of India which used to invest them along with their other funds in Treasury Bills or dated Government securities. This arrangement gave a somewhat distorted picture of the volume of deposits in scheduled banks and their investments in Government securities. It was accordingly decided, in consultation with the American authorities, that these moneys would, with effect from the 12th May 1960, be deposited directly with the Reserve Bank of India who would invest them in special securities of the Government of India. Further it has been arranged that from July 1960, for a limited period, the past accumulations with the State Bank of India would be transferred to Government in monthly instalments of Rs. 12 crores. Even

after making allowance for the effect of these revised arrangements, the rise in bank deposits in 1960 was somewhat smaller than in 1959.

23. The expansion of bank credit by the scheduled banks was on the other hand much larger—more than twice the expansion in 1959. In consequence, the credit-deposit ratio went up from 58 per cent at the end of 1959 to 62 per cent at the end of 1960. If P. L. 480 deposits are excluded, the ratio works out to 72 per cent in December 1960 as compared to 63 per cent a year ago. This strain on the resources of commercial banks has resulted in an increase in their borrowings from the Reserve Bank despite a decline in giltedged securities in their portfolios.

24. The upward trend in equity prices noticed since 1958 gathered further momentum and a speculative boom developed about the middle of the year. The index of prices of variable dividend securities moved up by about 14 per cent in the course of the first seven months of 1960. Commodity markets were also buoyant. With a view to check these speculative trends the Reserve Bank introduced several measures designed to restrain the total amount of credit creation. The bank rate remained unchanged but penal rates were imposed on borrowings by banks above certain limits. There is no doubt that while the banks must endeavour to meet the legitimate needs of production and trade, every care must be taken to prevent excessive credit creation. There has been a break in share values since July 1960 partly as a result of the tightening of credit, partly in consequence of the steps taken by the stock exchanges themselves by adjusting their margin requirements, and partly through some changes in the working policies of the capital issues control. The index of variable dividend securities which had risen to 182 by the end of July 1960 stood at 165 about the end of the year.

25. In passing I might also refer to the Refinance Corporation which was set up in 1958 to assist banks in financing medium-sized industries. We have during recent months substantially enlarged the scope of its operations by extending the facilities to a larger number of banks as also to State Finance Corporations and selected State Co-operative Banks, increasing the period of loans from 7 to 10 years, where necessary, and giving a larger discretion to the Corporation in regard to the industries to be assisted. These modifications, helped possibly by the stringency of funds, have resulted in an increase in the loans disbursed from Rs. 85 lakhs in 1959 to Rs. 141 lakhs in 1960, while the loans advanced in the month of January 1961 exceeded Rs. 70 lakhs.

26. The banking sector has a very important role to play in the mobilisation and husbanding of resources for our developmental plan and Government are therefore vitally interested in its health and vitality. The House is aware of the steps that we have taken to safeguard the interests of depositors including the powers to facilitate reconstruction or amalgamation of banks. Recently, we have promulgated an Ordinance to remove certain difficulties experienced in their reconstruction or amalgamation with other banks and to permit amalgamation under the Banking Companies Act with the State Bank of India. These measures will help to strengthen some of the more vulnerable units of the Indian banking system, which, I am convinced, is basically strong and sound. Government are determined to take whatever steps may be necessary for the efficient management of banks and for protecting the interests of the depositors.

Prices

27. The index of whole-sale prices which was 117.9 at the end of 1959 rose to a peak of 127.4 by the middle of October 1960, but declined to 124.3 at the end of the year. The average for 1960 works out at 6.5 per cent higher than for 1959, the rise in respect of industrial raw materials, mainly oil seeds, raw cotton and raw jute, being 18 per cent, and in manufactures 11 per cent. Rice prices rose by about 7 per cent, while wheat prices declined by 11 per cent, the index of foodgrains, taken as a group, has shown a small fall. We have been keeping a continuous watch over the trend of prices and in the case of specific commodities, such as, cotton, jute and groundnuts taken suitable steps like the introduction of quota system and the enforcement of credit restrictions supplemented by the tightening of margins in the commodity markets. Towards the end of 1960, the price index of rice, however, fell significantly. There was a seasonal rise in the index in the month of January which at the end of the month stood at 126.2 as compared to 119.2 at the end of January last year. The working class cost of living index has shown only a small increase, the index being 124 for December, 1960 as compared to 122 a year earlier.

28. The rising trend in prices has persisted almost throughout the Second Plan. Some price increases are inevitable in a developing economy. It should, however, be our aim to ensure that in the period of the Third Five Year Plan, the prices of the essential goods that enter into the common man's budget remain relatively stable. The Plan has been drawn up with due regard to this objective. A substantial increase in food production is the foundation on which the Plan rests, and I should like to take this opportunity of appealing both to our farmers and to the official and non-official agencies concerned with development in the rural areas to concentrate their effort on achieving the target of 100 million tons set out in the Draft Outline of the Plan.

29. Government have in hand sizable stocks of foodgrains amounting to 2.5 million tons, and, thanks to the agreement in respect of P.L. 480 imports signed last year with the United States, they also have an assurance of further supplies in the coming years. While this second string to our bow is essential as well as welcome, it should be regarded primarily as a stand-by to get over the bottlenecks which have impeded us in the past in achieving our targets of increased agricultural production.

Balance of Payments

30. The balance of payments situation during 1960-61, the last year of the Second Five Year Plan, took a turn for the worse. The Sterling assets held by the Reserve Bank of India on the 17th February, 1961 were Rs. 157 crores which are Rs. 46 crores lower than at this time last year. A part of this decline is attributable to the repayment of the stand-by credit from the International Monetary Fund amounting to about Rs. 11 crores. This repayment increases our borrowing capacity from the Fund and is not therefore a matter of concern. Apart from this, however, there has been a substantial fall in our balances on other accounts, a detailed analysis of which is set out in the Economic Survey.

31. The decline which has taken place in our foreign exchange reserves during the current financial year gives cause for reflection and

concern. First of all, it underlines the importance of stepping up our export promotion efforts. This is not an easy task in a developing economy where the standards of living are as low as they are in India. But an increase in our export earnings is vital to the success of our Plan. One of the weaknesses from which our industrial economy suffers is that, with the exception of a few industries like jute, cotton textiles and tea, most industries look to the vast domestic market and do not exert themselves to sell abroad. Considering that the supply of raw materials, components, spare parts and other essentials for our industries constitutes such an important element in expenditure of foreign exchange, it is essential that every industry which depends on imports should endeavour to earn at least part of the foreign exchange it spends by selling its products abroad. Greater attention to this consideration will have to be paid in the future. Government, for its part, will stand ready to help export industries in every way—by more liberal treatment in the matter of foreign exchange allocations, by speedy refund of internal taxes and duties levied on such products as are exported and in other ways.

32. We shall have to be even more careful about expenditure of foreign exchange. There has been a considerable tightening of import control restrictions. There are, however, various other ways in which foreign exchange is spent. One of these is expenditure on travelling abroad for one reason or another. It has been necessary to tighten allocations of foreign exchange for educational purposes by weeding out some of the less beneficial courses of study abroad. For other purposes too a stricter policy is being followed. There is a significant number of persons who, it appears, go abroad without any release of foreign exchange from the Reserve Bank but who are able to provide themselves with funds by various other devices. It is not my intention, at this stage, to place a ban on travelling abroad by people who have not received an allocation of foreign exchange, because there are quite a number of people who genuinely go as guests, on scholarships, and through other legitimate means. At the same time, the House will agree that we cannot allow the existing state of affairs to continue. I, therefore, propose shortly to provide for the submission by persons going abroad of a form containing information about the manner in which they are finding the foreign exchange for themselves. Cases of a doubtful nature will, where the facts warrant, be further pursued.

33. Our efforts to promote exports and to save on imports will not, however, by themselves, solve our foreign exchange problem. The ultimate solution can only be found through the efforts we are making to develop the country industrially and economically. While we are engaged in this process, we shall need massive external aid. We had started our Second Five Year Plan with our sterling balances around Rs. 746 crores. We are now embarking on a bigger Plan with our reserves at a much lower level. In doing so we are appreciative of the fact that in the world outside there is now a general recognition of the need to help us in our developmental effort and there is an acceptance of the position that our aim is to achieve a rate of progress which cannot, in any sense, be said to be overambitious.

Foreign Assistance

34. During the year 1960 the World Bank sanctioned two loans—Rs. 33 crores for the development of our Railways and Rs. 10 crores for

the Industrial Credit and Investment Corporation of India. The U.S. Development Loan Fund granted loans amounting to Rs. 107 crores for various power projects and for the construction of a fertiliser plant at Trombay. The U.S. Export-Import Bank extended a second credit of Rs. 24 crores. The United Kingdom Government sanctioned two loans totalling Rs. 20 crores to pay for capital goods purchased in that country. Of the \$100 million aid promised by the West German Government in 1958, \$40 million were authorised in 1959 and the balance of \$60 million in 1960. Among the other loans and credits negotiated during the year were Rs. 14 crores by Poland, Rs. 11 crores by Switzerland and Rs. 19 crores by Yugoslavia.

35. The third meeting of the consortium of the countries helping India was convened by the World Bank in September 1960 in Paris, chiefly for making a preliminary assessment of our requirements for the Third Plan. Following this meeting, the U.K. Government have offered a sum of Rs. 67 crores as initial assistance for our Third Plan and the Government of West Germany have agreed to our placing orders in that country up to Rs. 28 crores, besides consenting to the postponement of a major portion of the repayments falling due in the current and the next year on account of the loan for the Rourkela Project. The House will recall that in 1959 the Government of U.S.S.R. had agreed to make available an amount of Rs. 179 crores as an initial credit towards their collaboration in the Third Plan Projects. This has been supplemented by the offer of an additional credit of about Rs. 60 crores for which an agreement was signed last week.

36. The Commodities Agreement under P.L. 480 of the value of Rs. 636 crores signed with the United States in May last provides for the import of 18 million tons of wheat, 1 million tons of rice and also certain quantities of maize, milo, cotton, tobacco and soyabean oil. The foodgrains imported under this agreement will enable us to build up sizable reserves. The total value of commodities covered by the agreements so far signed under P.L. 480 amounts to a little over Rs. 1096 crores.

37. We continued to receive assistance from the Colombo Plan countries, the grants of Canada both for projects and in the shape of key commodities like non-ferrous metals deserving special mention. We were also helped by assistance from the United Nations and its specialised agencies and from the Ford and Rockefeller Foundations. While we have been receiving aid from the more advanced countries, we have, for our part, been ready and willing, within the limit of our resources, to help other countries by providing training facilities and services of experts under the Technical Co-operation Scheme of Colombo Plan as well as in other ways. The aid to Nepal during the current and next year would amount to Rs. 6 crores. In addition, we have continued to assist our neighbours, Sikkim and Bhutan in their development plans.

38. In the five years of the Second Plan period, the total foreign loans and credits covered by formal loan agreements are of the order of Rs. 1517 crores of which Rs. 1387 crores are on Government account, including the carry over of unspent balance from the First Plan amounting to Rs. 87 crores. The total utilisations during the Second Plan period are estimated at Rs. 752 crores, leaving an unspent balance of Rs. 722 crores to be carried forward to the next Plan. Of this balance, Rs. 329 crores

are for credits which are intended for financing the projects included in the Third Plan.

39. We have been receiving aid from friendly countries throughout the Second Five Year Plan. I should like, at this juncture, to pay a special tribute to the role of the International Bank for Reconstruction and Development under the leadership of its President, Mr. Eugene Black, in organising meetings of a consortium of countries who have jointly been discussing the question of aid to India in a friendly and constructive spirit.

Finance Commission

40. As Honourable Members are aware, the award of the Second Finance Commission for the devolution of resources from the Centre to the States covers the five years ending 1961-62. The Second Finance Commission had, however, experienced considerable difficulties in assessing the requirements of the State Governments as the period covered by their recommendations extends over both the Second and Third Plans. They had therefore recommended that the period of the Finance Commission's award should, in future, be made to coincide with that of the Plan. The Third Finance Commission was, accordingly, constituted in December last and it has been requested to give its recommendations for the four years from 1962-63 to 1965-66. As on the previous occasions the Commission will, in addition to making recommendations on the sharing of Taxes on Income and Union Excises, advise on the grants to be paid to the States which are in need of assistance, keeping in view the requirements of the Third Plan and the efforts expected of them to raise additional revenues. The Commission will also report on the changes, if any, to be made in the principles governing the distribution of Estate Duty and the manner in which the grant payable in lieu of States' share of Tax on Railway Fares should be distributed amongst them. As the Tax on Railway Fares is being abolished with effect from 1st April 1961, the recommendations of the Commission for the distribution of the grant in lieu of this tax will take effect from the next year.

Changes in Accounts

41. For some time past it has been felt that the existing accounting structure, which has continued more or less unchanged ever since it was drawn up at the time of the introduction of the Government of India Act, 1935, should be rationalised and recast in the light of the subsequent Constitutional changes and the rising tempo of Government developmental expenditures. The matter was reviewed in consultation with the Comptroller and Auditor General and it has been decided that the changes may be phased over a period of two years. The changes introduced in the coming year have been explained in detail in the Explanatory Memorandum.

42. I shall refer only to the important items. As Honourable Members know, the group head "Civil Administration" includes not only budget heads dealing with administration such as 'General Administration', 'Audit', 'Police' and 'Jails' but also major heads pertaining to developmental activities of Government such as 'Education', 'Agriculture', and 'Medical'. Apart from the fact that the nomenclature 'Civil

Administration' is somewhat misleading, the budget in its present form, does not indicate separately the expenditure incurred by Government on its administrative activities and on social and developmental activities. To remedy this defect the group head "Civil Administration" is being split up into two: "Administrative Services" and "Social and Developmental Services". The splitting up of group head "Civil Administration" will assist Honourable Members to assess the growth of administrative expenditure more correctly.

43. With the exception of certain statutory grants, grants-in-aid to State Governments have hitherto been recorded subjectwise under the relevant major heads of account and provided in the grants concerned. These grants are, however, not final expenditures of the Central Government on those activities but are merely transfers of resources from the Centre to the States. They are accordingly being segregated under a separate head 'Grants-in-aid to States' and the provision included in a single composite demand. The various types of grants namely statutory, plan and non-plan, will however be indicated separately under this head according to the Ministries administering them. This arrangement will give at one place the total of the grants from the Centre to the States and will also facilitate integrated control on the utilisation of these grants.

44. I might also refer to another change which might be of interest to Honourable Members. Payments to States of their share of Union Excise Duties have so far been shown as expenditure under the major head '2-Union Excise Duties'. These amounts are also in the nature of transfer of resources to the States and will hereafter be shown under a distinct major head 'States' Share of Union Excise Duties'.

45. It has also been decided that expenditure on labour and employment, which is at present exhibited under the heads Miscellaneous Departments' and 'Miscellaneous', should from the next year be recorded under a new major head "Labour and Employment".

46. I am sure the House will welcome these changes which will help to give a clearer picture of the purposes for which sums are being provided in the budget.

Financial Year 1960-61

47. The budget for the current year, as finally approved by Parliament, placed the revenue at Rs. 919·65 crores and expenditure at Rs. 980·35 crores, with the resultant revenue deficit of Rs. 60·70 crores. According to the present assessment, the revenue now is likely to amount to Rs. 923·72 crores and expenditure to Rs. 957·38 crores, leaving a deficit of Rs. 33·66 crores.

48. The gross revenue shows an improvement of Rs. 40·13 crores due mainly to better realisations of Union Excise Duties and Income-tax including Corporation Tax, but these improvements will be largely counter-balanced by the increase of Rs. 36·06 crores in the States' share of taxes. In the net, the revenue will show an increase of Rs. 4·07 crores. The receipts of Rs. 163 crores from Customs are at about the same level as estimated in the Budget. Union Excises including Additional Excises will yield Rs. 394.98 crores, an increase of Rs. 15.37 crores over the original estimate. This increase is spread over most of the items, notably, tobacco, refined diesel oil and motor vehicles, and is attributable to improvement in production and larger clearances during the year. The

Taxes on Income including Corporation Tax are expected to increase by Rs. 25 crores due mainly to the completion of a larger number of assessments pertaining to earlier years and better realisations than originally anticipated. The share of income-tax payable to the States will at the same time go up by Rs. 34·92 crores as a result of larger collections during the year and arrears payable for earlier years. This will, however, be partially neutralised by a reduction of Rs. 7·43 crores in the *ad hoc* grants to the States in lieu of the loss in their share of income-tax following the changes in the Company tax structure, for which provision is made in the expenditure estimates. The surcharge on iron and steel, which is transferred to the Iron and Steel Equalisation Fund, is likely to yield Rs. 2·1 crores less, while the grants under P.L. 480 programme will drop by Rs. 5 crores.

49. The revenue expenditure this year is now estimated at Rs. 957.38 crores against the original estimate of Rs. 980.35 crores. Defence Services account for Rs. 266.72 crores and Civil Expenditure for Rs. 690.66 crores.

50. The saving of Rs. 17.43 crores in the Civil Expenditure is the cumulative effect of changes over several heads. Debt services will show a saving of Rs. 2.24 crores due chiefly to smaller issues of market loans and treasury bills, partly counter-balanced by larger payment of interest on Post Office Savings Bank deposits and savings certificates. The transfer of the surcharge to the Steel Equalisation Fund and of the grant under P. L. 480 to the Special Development Fund together will account for a fall of Rs. 7.1 crores. As I mentioned earlier, the *ad hoc* grants to the States in lieu of income-tax will drop by Rs. 7.43 crores but the grants to States for raising the emoluments of low-paid employees will increase by Rs. 2.41 crores.

51. The net expenditure on Defence Services this year is estimated to show a saving of Rs. 5.54 crores. This is mainly due to a lower expenditure on the purchase of stores and equipment than was originally anticipated.

Financial Year 1961-62

52. For the coming year, at the existing level of taxation, I am budgeting for a total revenue of Rs. 962·92 crores and an expenditure of Rs. 1023.52 crores, leaving a deficit of Rs. 60.60 crores.

53. The revenue from Customs is expected to show a modest increase of Rs. 1 crores over the current year's revised estimate, whereas Union Excises are likely to improve further by Rs. 11.26 crores and Taxes on Income and Corporation Tax together by Rs. 6 crores. The contribution from Railways is expected to increase by Rs. 16.23 crores due mainly to the implementation of the recommendations of the Railway Convention Committee. The rate of dividend will increase from 4 per cent to 4¼ per cent. Further, the Railways will be paying an additional annual contribution of Rs. 12.5 crores to the General Revenues in lieu of the Tax on Railway Fares, which will be distributed amongst the States by way of grant. The profits of the Reserve Bank will show an increase of Rs. 2½ crores over the current year's amount of Rs. 40 crores and the grant under P. L. 480 is estimated to go up by Rs. 5 crores. The share of Income Tax payable to the States is expected to be lower by Rs. 6.19

crores next year mainly on account of smaller payment of arrears in respect of earlier years. These improvements, however, will be partly counter-balanced by decreases under several heads, notably, surcharge on iron and steel which will drop further by Rs. 3.4 crores as a result of the provisional increase in the retention price of steel.

54. Civil Expenditure next year shows an increase of Rs. 49.94 crores over the current year's revised estimates. In view of the changes in the classification of accounts to which I have referred earlier, the figures for 1961-62 are not quite comparable with the corresponding figures for the current year. I shall however, make allowance for the effect of these changes under the appropriate heads while commenting on some of the important provisions. The growing volume of internal and external borrowings accounts for an increase of Rs. 9.55 crores under Debt services. The variations in respect of the surcharge on iron and steel and the grant under P. L. 480 referred to above will also be reflected on the expenditure side. Excluding grants to States, which will now be exhibited separately, and transfer of the surcharge mentioned earlier, Social and Developmental Services are expected to cost Rs. 32.88 crores more next year. This increase is spread over almost all the heads and is attributable chiefly to the implementation of the schemes included in the Third Plan. The *ad hoc* grants payable to the States in lieu of loss in their share of income-tax following the changes made in the Company tax structure will go up by Rs. 2.76 crores. Excluding the grants payable as a result of the abolition of the tax on Railway Fares to which I have referred earlier the grants to the States next year will decrease by Rs. 18.35 crores mainly on account of the discontinuance of the grants for raising the emoluments of low-paid employees which were payable only during the Second Plan period. The Third Finance Commission is expected to take this factor into account in assessing the needs of the State Governments for assistance from the Centre.

55. The net expenditure on Defence Services next year shows an increase of Rs. 16.2 crores. Army estimates will go up by Rs. 9.2 crores, whereas Navy and Air Force together will require Rs. 3.54 crores more. The Non-effective Charges also account for an increase of Rs. 3.46 crores attributable chiefly to the recent decision to extend to the military pensioners with retrospective effect the benefit of temporary increase in small pensions admissible from 1st April, 1958 on the Civil side. The overall increase in Defenc eEstimates is due mainly to the additional commitments of Armed Forces including the expansion of certain establishments and provision for payments to Service Officers on the basis of the recommendations of the Pay Commission.

Capital Expenditure

56. Excluding the adjustment for the transfer of assistance from the United States to the Special Development Fund, which is technically classified as capital expenditure, the current year's budget provided Rs. 371 crores for capital outlay. The corresponding figure is now estimated at Rs. 416 crores, an increase of Rs. 45 crores. On account of larger imports, particularly of wheat, the net expenditure on the purchase of foodgrains will increase by Rs. 30.48 crores. The requirements for the construction of border roads are likely to exceed the original estimate by Rs. 13.5 crores. An additional amount of Rs. 7.94 crores will be

required for exploration of oil by the Oil and Natural Gas Commission, while payment of Rs. 8.27 crores had to be made to the World Bank under the Indus Waters Treaty. These increases will be partly counter-balanced by shortfalls under certain other items of capital expenditure. Detailed explanations for the variations under other heads have, as usual, been given in the notes on the Demands for Grants and in the Explanatory Memorandum.

57. The corresponding provision for capital outlay next year is Rs. 454 crores, showing an increase of Rs. 38 crores over the current year's revised estimate. This increase is spread over a number of heads and reflects the additional requirements in the first year of the Third Plan. Railways will be spending Rs. 36.38 crores more for their capital outlay but the net expenditure on purchase of foodgrains will go down by Rs. 26 crores. Of the other major increases, mention may be made of Rs. 7.7 crores under border roads, Rs. 8.46 crores for industrial development, Rs. 5.2 crores for the development of land acquired by the Delhi Administration and Rs. 2.83 crores for the construction of food storage godowns.

58. In addition to the direct capital outlay just mentioned, the estimates provide Rs. 356.07 crores this year and Rs. 409.22 crores next year for loans to States and Rs. 174.37 crores this year and Rs. 170.60 crores next year for loans to other parties including Port Trusts, Government-owned Corporations and foreign Governments.

59. Provision has been included in the next year's estimates for a total expenditure of Rs. 943 crores for implementing the Plan of which Rs. 181 crores would be on revenue account and the balance of Rs. 762 crores as capital outlay including loans. In addition, the Railways will provide Rs. 23 crores from their own resources. These estimates include a provision of Rs. 352 crores for assistance to States, Rs. 90 crores in the Revenue budget and Rs. 262 crores in the Capital budget. It is expected that the States will find Rs. 200 crores from their own funds, thus making up an outlay of Rs. 552 crores for the State plans. The outlay on the Central portion of the Plan will aggregate to Rs. 614 crores. In all, the total Plan outlay in the first year of the Third Plan both for the Centre and the States will be of the order of Rs. 1166 crores. In making these provisions, we have borne in mind the need for proper and careful phasing. A substantial portion of the provision during the coming year relates to the Second Plan projects which will be carried forward to the Third Plan and a relatively modest provision has been made for the new projects which require much preparatory work.

Ways and Means

60. The overall deficit for the current year was estimated in the original budget at Rs. 153 crores. According to the present assessment, this deficit is now expected to come down to Rs. 15 crores. The improvement of Rs. 138 crores is the result of a number of factors. The revenue deficit is now expected to go down by Rs. 27 crores. The revised procedure regarding the deposit of P. L. 480 funds with the Reserve Bank of India, to which I have alluded earlier, accounts for investments in special securities of Rs. 240 crores *i.e.*, Rs. 108 crores on account of transfers from the State Bank of India and Rs. 132 crores due to net

fresh accruals. The opening cash balance exceeded the original estimate by Rs. 19 crores. This improvement of Rs. 286 crores will be partly offset by an increase of Rs. 45 crores in capital expenditure mentioned earlier, decline of Rs. 84 crores in the net internal and external borrowings and worsening to the extent of Rs. 19 crores under other debt heads.

61. The Budget had assumed credit for market loans at Rs. 250 crores including Rs. 25 crores from Prize Bonds. During the year, two loans were floated: 3½ per cent Bonds, 1966, and 4 per cent Loan, 1980 for a total sum of Rs. 175 crores. Conversion facilities were also offered to the holders of 2¾ per cent Loan, 1960, 4 per cent Loan, 1960-70 and 2½ per cent Hyderabad Loan, 1955-60 maturing during the year. The total amount subscribed was Rs. 180.70 crores including Rs. 74.6 crores by way of conversion.

62. The Prize Bonds are expected to yield a sum of Rs. 12.5 crores by the end of the year. As Honourable Members are aware, during the first few months of the introduction of the scheme, the sale of these bonds was very brisk but thereafter the demand for them has slackened appreciably. I believe, however, that these bonds have much attraction for a large mass of the people and with more intensive and co-ordinated efforts on the part of both non-official and official organisations, particularly in the States, it should be possible to improve substantially on the recent performance.

63. The House will recall that in pursuance of the decision for the gradual funding of a part of the *ad hoc* Treasury Bills held in the Issue Department of the Reserve Bank of India, Treasury Bills of the value of Rs. 300 crores were converted in 1958-59 and another batch of Rs. 150 crores in 1959-60, into dated securities. We have continued this process during the current year by conversion of another batch of Treasury Bills worth Rs. 50 crores.

64. Small savings have, during the last three years, shown encouraging results. The net collections last year aggregated to Rs. 84 crores. During the first ten months of the current year net collections have exceeded the collections for the corresponding period last year by Rs. 19 crores, and we are, for the first time, likely to end the year with a net collection of Rs. 100 crores. The co-operation and response which the large masses of people have shown in contributing to the success of the Small Savings movement is very heartening and augurs well for the future. I should like to take this opportunity of expressing my appreciation of the assistance rendered in this direction by non-official agencies—particularly the Advisory Boards at the Centre and the States—and the official organisations under the various Ministries. I hope these encouraging trends will receive further momentum in the Third Plan which places the receipts from this source at Rs. 585 crores. It would, however, not be wise to rest on our oars and take the present improvement for granted. A greater intensification of our efforts will be necessary in order to achieve that target. Development involves sacrifies and the essence of democratic planning is that the sacrifice should be evenly spread and should be forthcoming readily and voluntarily. I invite every citizen to participate in this sacrifice and to save more in order to invest more in the Small Savings Schemes

65. In the budget for the coming year, I have taken a credit for a gross market borrowing of Rs. 235 crores. For small savings, I have taken a net credit of Rs. 105 crores, representing an increase of Rs. 5 crores over the likely receipts this year. On the basis of our present assessment, the foreign assistance expected during the coming year is estimated at Rs. 421 crores. The net investment of P. L. 480 Funds is likely to be of the order of Rs. 96 crores including the transfer of Rs. 36 crores from the moneys formerly deposited with the State Bank.

66. I may now state, in brief the overall budgetary position next year. The revenue deficit at the existing level of taxation is expected to amount to Rs. 61 crores, actually Rs. 60.60 crores. Net capital outlay is estimated at Rs. 454 crores, loans to State Governments and others at Rs. 580 crores and debt repayments at Rs. 167 crores. The total outgo of Rs. 1262 crores will be met to the extent of Rs. 235 crores from public borrowings in India, Rs. 105 crores from small savings, Rs. 421 crores from foreign assistance, Rs. 176 crores from loan recoveries, Rs. 96 crores from the investment of P. L. 480 Funds and Rs. 104 crores from miscellaneous receipts, leaving an overall budgetary deficit of Rs. 125 crores.

67. I shall now turn to the taxation proposals for the coming year.

68. Taxation in a developing economy plays a vital part. It is more than a mere budgetary device to pay for the cost of Administration. It is an instrument of economic policy.

69. I have already emphasized the importance of our tax effort in raising resources for the Plan. The Third Plan envisages an increase in tax revenue from 8·5 to 11 per cent of the national income. It is no longer a question of trying through taxation to cover the deficit on revenue account from year to year. We have to raise resources for the Plan as a whole. It is clear that every one must contribute towards the task of development on which we have embarked. It has been my endeavour, however, in framing my proposals to see that the tax burden does not fall too heavily on any one section of the community. It has, therefore, been necessary to have a large list of items over which the tax burden is spread. I have also aimed at securing that the incidence of taxation on lower income groups is very small. Finally I have tried to ensure that through our tax system we further our economic objectives.

We have to see that by our tax policies we discourage imports and encourage exports. It is also necessary to discourage consumption and encourage investment.

70. The proposals I am about to present both for direct taxation and for indirect taxation have these objectives in view.

Customs and Union Excises

71. In regard to Customs my proposals envisage the raising of the rates of duty on 41 items. The changes in rates of duties have been explained in detail in the memorandum circulated with the budget papers. I will, however, refer to some of the important changes.

72. I propose to increase the existing duty on betelnuts by 80 nP per kilogram. This will serve to some extent to mop up the high margin of profit on this commodity. The proposal is estimated to yield an

additional revenue of Rs. 57 lakhs in a year. It is proposed to step up the existing duty on unmanufactured tobacco by about 50 per cent. This is likely to give Rs. 89 lakhs annually. The existing duty of 50 per cent *ad valorem* on certain textile manufactures will be raised to 100 per cent *ad valorem*. This will be consistent with the generally high rates of duty on other textile items. The proposal will bring in additional revenue of Rs. 68 lakhs. Similarly, the duty of 35 per cent *ad valorem* on iron and steel manufactures is to be increased to 50 per cent *ad valorem*, the extra annual yield being Rs. 1 crore approximately.

73. Manufacture of machinery is developing fast in the country. As a measure to assist its growth, it is proposed to raise the import duty on machinery and components. My proposal for this item is two-fold. firstly to raise the statutory rate of duty from 10 per cent *ad valorem* to 15 per cent *ad valorem*, except in regard to the items on which there is a commitment under the General Agreement on Tariffs and Trade, and secondly to raise the concessional rate of duty at present applicable to certain types of machinery exempted under executive notification from 5 per cent *ad valorem* to 10 per cent *ad valorem*. The general policy of the Government has been to keep the duties on capital goods as low as possible. The increase being small should, however, make little difference to the cost of production. The proposal is estimated to yield an additional revenue of Rs. 7.76 crores.

74. I propose to increase the duty on spirits, wines and malt and to impose a duty on hops and expect as a result an annual yield of Rs. 24 lakhs.

The existing duty on electrical and other instruments, apparatus and appliances not otherwise specified is proposed to be raised by an addition of 10 per cent *ad valorem*. It is also proposed to increase the existing duty on railway material for permanent way and rolling stock and their component parts by 5 per cent *ad valorem*, the estimated extra annual yield from these two changes being Rs. 1.48 crores.

The duty on the residuary item of "all other articles not otherwise specified" falling under entry 87 of the Tariff Schedule is to be raised by 10 per cent *ad valorem*, the additional yield being Rs. 2:43 crores.

75. I am also proposing a small increase in duty on newsprint. In 1937, the statutory rate of duty on newsprint was 25 per cent. For convenience, however, the duty was fixed by notification at certain specific rates which then worked out to about 25 per cent. The statutory rate of duty on paper including newsprint has since increased to 40 per cent plus excise duty, whereas the specific rates on newsprint have remained almost the same. On the other hand, the price of newsprint has increased considerably in the interval, with the result that the *ad valorem* incidence of the specific rates of duty now works out to less than 5 per cent as against the rate of 25 per cent, when it was originally fixed. It is proposed to raise this duty to about 10 per cent *ad valorem*. The change is being given effect to by a notification. The estimated yield as a result of this change is Rs. 38 lakhs a year.

76. Tea which is one of our very good foreign exchange earners has lately been losing ground in the international market. In order to

encourage its export, it is proposed to reduce the export duty on tea by 9 nP per kilogram, that is by about 17 per cent, resulting in a loss of Rs. 2 crores.

77. The net effect of these changes will be to increase the Customs revenue by Rs. 16.95 crores.

78. Following the changes in excise duties to which I shall refer presently, provision is being made, wherever necessary, for the levy of countervailing import duties so that the indigenous producer is not placed at a disadvantage. The additional revenue resulting from the countervailing duties is expected to be Rs. 12.32 crores a year.

79. Turning to Union Excise duties, I propose to make changes in the rates of duty in respect of 14 commodities already subject to the levy and to impose the duty on 18 new commodities.

80. With the object of restraining consumption of tea and assisting its export, I propose to increase the excise duty on loose tea by 5 to 8 nP per kilogram. The rate on package tea is, at the same time, being reduced by 6 nP per kilogram, as the present rate of duty is leading to a shift in the customary trade. These measures will yield Rs. 1.98 crores. With a similar object, the rate of duty on coffee is also proposed to be increased by about 33 per cent, bringing in Rs. 88 lakhs.

Tobacco has been one of our stable revenue earners. Major changes in its tariff structure were made in 1957 but experience has shown the need for some simplification and rationalisation. In order to discourage lower rated tobacco being used as a substitute for tobacco bearing a higher rate, it is necessary to narrow the difference between the two rates. It is also necessary to step up the duty on stalks. The structure of duty on air and flue cured tobacco and on cigarettes and on cigars and cheroots is being simplified. These changes will yield an additional revenue of Rs. 2·58 crores.

81. With the improvement in the standards of living, consumption of kerosene has been rising and as the production of kerosene in the country falls short of our requirements, large quantities have to be imported. It is necessary to slow down the rate of increase in the use of kerosene, particularly superior kerosene and with this in view I propose to increase duty on it i.e. of superior kerosene by about 46 per cent, raising the incidence of duty to Rs. 95.55 per kilolitre. This, with the existing additional duty of Rs. 4.45 will mean a total duty of Rs. 100 per kilolitre. Inferior kerosene, which is generally used in rural areas, is being exempted from this increase by a notification. Additional revenue from this will be Rs. 2.84 crores.

Because of the high difference in duty between refined diesel oil and diesel oil not otherwise specified, there is a growing tendency to use the latter in admixture with the former. Partly to correct this imbalance, I propose to raise the duty on diesel oil not otherwise specified by Rs. 28.15 per metric tonne. This will give a revenue of Rs. 1.33 crores.

82. The rayon yarn industry is in a buoyant condition and is earning substantial profits. I propose to step up the duty on yarn of all categories and on staple fibre by about two-thirds. This measure is expected to yield an additional revenue of Rs. 1.69 crores.

I am also increasing the duty on vegetable product by Rs. 2.80 per quintal, that is 100 kilograms. This is expected to yield an additional revenue of Rs. 80 lakhs a year.

Paints and varnishes and paper industry are now firmly established and these commodities are in a position to contribute further to the exchequer. I propose to raise the duty on paints and varnishes by about 25 per cent and on paper and paper-boards by 36 per cent to 59 per cent. I do not, however, propose any increase in the duty on printing and writing paper. The additional revenue from paints and varnishes and from paper and paper-boards is estimated at Rs. 30 lakhs and Rs. 2.37 crores respectively.

83. The large gap in the rates of duty on fine and medium 'A' varieties of cotton fabrics has resulted in a major shift in production from fine to medium 'A' cloth. To correct this to some extent, I propose to raise the basic duty on medium 'A' grey fabrics by 25 per cent. The excise duty on processed cloth is also being increased by small amounts. These measures are expected to yield Rs. 4.72 crores.

The concession which is given at present to small units in the form of total exemption from duty or duty at a reduced rate in respect of units employing less than a specified number of power looms has led to abuses and difficulties in administration. To remedy this, full exemption will be admissible only to such units as do not employ more than 2 looms in respect of cotton, rayon and silk fabrics and one loom in respect of woollen fabrics. The slab rates of compounded levy are also being adjusted suitably.

84. It is in the interest of development of match industry in the country that only one size of match box should be produced for general use and the size considered most suitable is a box of 50 sticks. To encourage this standardization, through fiscal measures rather than compulsion, I propose to make certain changes in the pattern of duty on matches. The ceiling rate of duty is proposed to be revised from 57 nP per 1000 sticks to 65 nP per 1000 sticks. The rates of duty on the standard boxes of 50 will, however, be kept almost at the present level and the increased rate will affect only matches packed in non-standard boxes. At the same time, as a measure of encouragement to the cottage sector of the industry which uses bamboo for making splints, the concessional rates are being further liberalised. These proposals are not likely to result in any appreciable change in revenue. To give sufficient time to the industry to adjust itself to the new requirements it is proposed to continue the present concessional rates on boxes of 40s and 60s for a further period of 3 months.

85. Medium and small size factories producing cycle rims which were mostly dependent on replacement market for disposal of their products are having a difficult time. Consistently with our policy to help smaller units, I propose to grant certain concessions which will give relief to the extent of Rs. 10 lakhs a year to them.

86. With the industrial expansion in the country it is now possible to spread the excise net wider. I propose to impose small specific duties on soda ash, caustic soda and glycerine, a duty of 15 per cent *ad valorem* on coal tar dyes, of 10 per cent on patent or proprietary medicines not

containing alcohol and of 25 per cent on certain articles of cosmetic and toilet preparations. Patent and proprietary medicines containing alcohol are already subject to duty under the Medicinal and Toilet Preparations (Excise Duties) Act. These items taken together are expected to yield an annual revenue of Rs. 1.8 crores.

Similarly it is proposed to levy a duty of 20 per cent *ad valorem* on cellophane and on plastic powders and other semi-finished plastic material. I expect a revenue of about Rs. 50 lakhs from these.

87. It is proposed to levy a small specific duty on mill-made cotton and woollen yarn and I hope that at least a part of the duty will be absorbed in the cost of manufacture. This step will also bring within the excise net hosiery and certain other fabrics which do not bear any duty at present. This duty will not, however, apply to yarn in hanks used in weaving on handlooms such as dhoties, sarees and other common varieties of cloth and to yarn spun from shoddy wool used in the fabrication of coarse articles. I expect a revenue of Rs. 5.55 crores from this levy.

88. My next proposal is to levy excise duties ranging from 5 per cent *ad valorem* to 15 per cent *ad valorem* on glass and glassware and China and porcelainware including crockery. Provision is being made for a lower rate of duty for laboratory glassware used mostly in educational or research institutions. The revenue from these two items taken together is estimated at Rs. 1.60 crores.

The House will recall that last year a duty was levied on aluminium in certain forms. I now propose to place two other non-ferrous metals, namely, copper and zinc, which can to some extent substitute aluminium, on the same footing, and am accordingly levying a duty of Rs. 300 per metric tonne on sheets and circles and 10 per cent *ad valorem* on pipes and tubes. I also propose to bring aluminium pipes and tubes in line with those of copper and zinc. This proposal is estimated to yield a revenue of about Rs. 80 lakhs.

89. I also propose to levy a duty on wireless receiving sets, air conditioning machinery and refrigerators. The duty on air-conditioning machinery and refrigerators is proposed to be levied at 20 per cent. In the case of wireless receiving sets I propose a ceiling rate of 20 per cent *ad valorem* for sets valued at more than Rs. 300 each and concessional rates for cheaper sets, those valued upto Rs. 150 each will be completely exempted from duty. I expect a revenue yield of Rs. 83 lakhs from these sources.

90. My last proposal under this head is to put an additional excise duty on mill-made silk fabrics in lieu of sales tax levied on such fabrics by the States. The States have agreed to this proposal.

91. The net effect of all these proposals is an additional revenue of Rs. 30.90 crores of which Rs. 2.3 crores will accrue to the States, as their share.

Direct Taxes

92. I am proposing only one change in the rate structure of personal income tax. At present, earned income is taxed at a concessional rate through a scheme of differential rates of surcharges under which earned income above Rs. 1 lakh bears a lower surcharge of 5 per cent while the whole of unearned income bears a special surcharge of 15 per cent of the basic income tax and super tax. The maximum slab rate of tax, including surcharge, on unearned income is thus 84 per cent while it is 77 per cent in the case of earned income above Rs. 1 lakh. The justification for a differential treatment in favour of earned income, however, diminishes as the income and with it the capacity to pay increase and I consider that earned incomes above Rs. 1 lakh should be subjected to tax at a rate nearer to that at which unearned income is taxed. Accordingly, I propose to increase the rate of the present special surcharge of 5 per cent on earned income above Rs. 1 lakh to 10 per cent of the basic tax.

93. I have proposed a few changes with regard to the taxation of companies in order to rationalise the present tax structure, and to encourage capital formation. We are encouraging companies to have a wide equity base. Capitalisation of reserves and of premium on shares is an important device to ensure that a company does not dissipate its reserves through higher dividends. The supex-tax payable by companies on bonus issues has, it would appear from recent experience, discouraged this process. Now that the tax on excess dividends has been abolished, I consider it desirable both from the revenue point of view and from the point of view of widening the equity base of companies to reduce the tax on new bonus issues from 30 per cent to 12½ per cent. The Controller of Capital Issues will, however, continue to ensure that bonus issues are not sanctioned except after a careful scrutiny of the proposals.

94. My next proposal relates to the rate of super-tax payable by companies on dividends received by them. Under the law as it stands, there is a concessional rate of super-tax on dividends received by a parent company from its subsidiary, while inter-corporate investment on a minority basis is taxed at a higher rate. I feel that we should not, through our tax laws, encourage the formation of subsidiaries. Consistently with our broad social objectives, our tax laws should help to enlarge rather than restrict the scope for public participation in all joint-stock companies. I have one more consideration in mind. Because of the more favourable treatment given to income derived from subsidiaries, foreign investors in Indian companies are tempted to ask for a majority holding. The tax on minority share-holding by a foreign company is substantially higher than on an Indian company with a minority investment. The investment of foreign capital can make a major contribution to our programmes of industrial development. We do not, rightly give any tax concessions to the foreign investor as such. At the same time, we should not impose a higher tax on inter-corporate investment from out side which comes in with government's approval than on similar Indian investment. Having regard to all these considerations, I propose that the rate of super-tax on dividends paid on inter-corporate investment, whether Indian or foreign, and whether on a majority basis or a minority basis, should be fixed at 20 per cent. In order that this

change does not affect investments already made under different assumptions, the new rate of taxation will apply to investment in companies formed after 1st April, 1961.

95. My other proposal relates to the taxation of royalties received from Indian enterprises by foreign companies. The present rate, inclusive of income-tax and super-tax, comes to 63 per cent, which, it appears, is higher than the rate in any other country. The incidence of this high rate of tax is borne in the last analysis by our own industry because the foreign interest concerned naturally asks for a rate of royalty which would give an adequate return to it after deduction of taxes. In order to enable Indian industry to secure technical collaboration on more favourable terms, I propose to reduce the tax on royalties payable on agreements approved by the Central Government after the 31st March, 1961, to 50 per cent.

96. During the recent years, there has been a growing tendency on the part of companies and their directors and executives to entertain on a lavish scale at the expense of companies. While a certain amount of entertainment is unavoidable and indeed necessary in the interest of the business of the company, such expenditure, quite often is out of all proportion to the benefit to the company. This ostentation and extravagance have an unhealthy effect on the society and go ill with the need for economy and our ideal of social equality. This state of affairs is partly facilitated by the fact that such expenses are counted as business expenditure for the purpose of tax. In order to correct the situation, without penalising expenditure on a reasonable scale, I have proposed that entertainment expenses in the case of companies, should be admissible within specified limits as expenditure for the purpose of tax.

97. I shall now briefly refer to the more important of the amendments which I have proposed in the Income Tax Act. At present development rebate is allowed at the rate of 40 per cent of the cost in the case of a ship and at the rate of 25 per cent in the case of other plant or machinery. It is proposed to reduce the rate of 25 per cent to 20 per cent in the case of machinery or plant installed after the 31st March 1961. The development rebate of 40 per cent in the case of a ship will continue unaffected. I also propose that where a company is amalgamated with another company or where a firm is converted into a private company and machinery or plant on which development rebate is admissible to the predecessor is transferred, the development rebate already allowed in respect of the asset transferred will not be withdrawn and any unutilised portion of the rebate will be available to the successor company, subject to appropriate conditions.

98. The period of tax exemption for foreign technicians, where contracts of service have been approved by the Central Government, varies between 24 and 36 months at present. It is proposed to make such exemption available for a uniform period of 36 months. Further, if after this period of thirty six months, the technician's services are retained in India and the employer pays tax on the technician's salary, the amount paid as tax by the employer will not be treated as part of the employee's income. This concession is proposed to be given for a period of 24 months after the expiry of the initial tax-free period of 36 months. Both these concessions will apply automatically to technicians whose contracts have been approved under the existing regulation.

99. Another amendment authorises public financial institutions, approved by Government, which have been set up to promote industrial development by providing long-term finance, to claim as a deduction, appropriations made to a special reserve account, of sums, not exceeding 10 per cent of the total income of each year till the amount carried to the reserve account becomes equal to the paid-up capital of the institution.

100. Honourable Members will be interested in another proposal which seeks to extend the benefit of the 5 years' tax holiday provided under section 15 C of the Income Tax Act to newly started hotels which satisfy certain conditions. The object of this concession is to provide an incentive for the building of hotels which are intended to cater mainly to the tourist traffic earning foreign exchange.

101. In order to stimulate construction of housing for the use of persons in low income group, I propose to provide for a deduction of Rs. 600 per annum from the annual value of new residential units completed after 31st March, 1961. This concession will be available for a period of three years only from the date of completion. Further, I propose to provide for an initial depreciation allowance of 20 per cent to business undertakings for premises constructed by them for their employees drawing not more than Rs. 200 per month.

102. I shall not take the time of the House in dilating upon the remaining amendments to the Income Tax Act as these are of a minor nature and have no revenue significance.

103. The changes in direct taxes will bring in an additional revenue of Rs. 3 crores.

Net effect of the proposals

104. I may now briefly state the net result of my proposals. The changes in the Customs duties will yield an additional revenue of Rs. 29.27 crores. Excluding the amount of Rs. 2.3 crores transferable to the States, Union Excise duties will bring in Rs. 28.6 crores. The minor changes in Income Tax and Corporation Tax are expected to yield an income of Rs. 3 crores. As a result of these proposals, an additional revenue of Rs. 60.87 crores will accrue to the Centre. This will completely wipe out the revenue deficit and give a nominal revenue surplus of Rs. 27 lakhs. The overall deficit will consequentially be reduced from Rs. 125 crores to Rs. 64 crores and will be met by the expansion of Treasury Bills.

Conclusion

105. The taxation proposals which I have just outlined will, no doubt, impose an additional burden on the people though my aim has been to minimise its incidence on the weaker sections of the community. I would, however, have failed in my duty if, on the threshold of the Third Plan, I had called for a smaller effort. We have set ourselves the onerous task of raising the standard of living of our people and of speedily building up a self-sustaining economy. We are doing this with the willing consent of the people through democratic processes. There can be no respite from sweat and sacrifice.

106. Our efforts in mobilising resources for the Second Plan have been impressive. By raising additional revenue of about Rs. 800 crores through fresh taxation we have, over the five year period, not only met our entire revenue expenditure from our current income but have also financed capital expenditure to the extent of about Rs. 130 crores from current surpluses. In addition, we have assisted the States by way of revenue grants of the order of Rs. 700 crores, over and above their share of Income Tax and Union Excise Duties. At the same time, we have kept deficit financing well within the limits originally envisaged. I venture to submit that these are not insignificant achievements.

107. Our objectives and targets during the Third Plan are more ambitious. Throughout the next five years, it must be our endeavour to keep the pressure on prices under check by raising additional revenues and mobilising savings so as to ensure that deficit financing is kept within the limit of Rs. 550 crores envisaged in the Draft Outline. We are making a good beginning in this direction in the first year of the Plan.

108. We have chosen for ourselves certain social and economic goals. We must do our utmost to achieve them. This will mean hard work and sacrifices for some time to come. But there is a promise of a rich reward in the shape of higher standards of living, more employment opportunities and a better socio-economic system. The tasks that we have undertaken are of great moment for the future of the country. We dare not falter at this crucial stage.

SUMMARY OF FINAL ESTIMATES

(In lakhs of Rupees)

REVENUE	Budget 1960-61	Revised 1960-61	Budget 1961-62
Customs	1,62,50	1,63,00	1,64,00 +29,27*
Union Excise Duties	3,79,61	3,94,98	4,06,24 +28,60*
Corporation Tax	1,35,00	1,37,50	1,40,00 +1,00*
Taxes on Income other than Corporation Tax	52,94	40,52	50,21 +2,00*
Estate Duty	10	9	9
Taxes on Wealth	7,00	7,50	7,00
Taxes on Railway Fares	11	(—)12	..
Tax on Expenditure	90	90	80
Gift Tax	80	80	80
Opium	5,69	5,82	6,25
Interest	15,71	14,87	13,84
Administrative Services	84	99	97
Social and Developmental Services	52,35	51,46	47,00
Currency and Mint	57,22	57,85	60,63
Civil Works	3,04	3,38	3,75
Other Sources of Revenue	39,73	38,66	39,28
Posts and Telegraphs—Net Contribution to General Revenues	47	46	77
Railways—Net Contribution to General Revenues	5,64	5,06	21,29
TOTAL—REVENUE	9,19,65	9,23,72	9,62,92 +60,87*

*Effect of budget proposals.

(In lakhs of Rupees)

EXPENDITURE	Budget 1960-61	Revised 1960-61	Budget 1961-62
Collection of Taxes, Duties and other Principal Revenues	32,81	32,20	30,46
Irrigation	17	13	15
Debt Services	74,59	72,35	81,90
Administrative Services	60,59	61,53	58,37
Social and Developmental Services	2,07,17	1,98,52	1,73,46
Currency and Mint	10,27	10,87	11,96
Civil Works and Miscellaneous Public Improvements	20,32	21,59	21,73
Pensions	10,11	10,33	10,41
Miscellaneous—			
Expenditure on Displaced Persons	20,28	20,28	11,28
Other Expenditure	1,11,70	1,07,07	42,75
Grants to States, etc.	51,81	51,87	2,10,93
States' Share of Union Excise Duties	74,52	75,10	76,33
Extraordinary Items	33,75	28,82	10,87
Defence Services (Net)	2,72,26	2,66,72	2,82,92
TOTAL EXPENDITURE	9,80,35	9,57,38	10,23,52
Deficit(—) / Surplus(+)	(—)60,70	(—)33,66	(—)60,60 (+) 60,87*

* Effect of budget proposals.